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TAGS: OECD, EFIN, ECON, TU
SUBJECT: OECD CONSORTIUM FOR TURKEY, JUNE 27, 1978

REF: PARIS 19593

1. SUMMARY AND COMMENTS: TURKISH CONSORTIUM REVIEWED
ISSUES RELATED TO TURKEY'S SHORT-TERM (1978) FINANCIAL
PROBLEMS AND THEN BRIEFLY DISCUSSED POSSIBLE LONGER-TERM
TASKS FOR CONSORTIUM. ALTHOUGH CONSORTIUM CHAIRMAN
(GIEL) INDICATED THAT IT WAS NOT REALISTIC TO EXPECT
DONOR COUNTRIES TO MAKE NEW FINANCIAL PLEDGES AT JUNE 27
SESSION, MEETING HAD RATHER UNREAL QUALITY IN THAT
ASPIRATIONS OUTLINED BY GOT AND CONSORTIUM SECRETARIAT
WERE CLEARLY BEYOND WHAT MOST DONOR COUNTRIES PREPARED
TO UNDERTAKE. GIEL AND CONSORTIUM SECRETARY (KUEHN)
AND TURKISH DELEGATION (HEADED BY GUCSAVAS) FULSOMELY
DESCRIBED CRITICAL NATURE OF TURKEY'S FINANCIAL NEEDS
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AND SOUGHT TO PERSUADE CONSORTIUM MEMBERS THAT MUCH
MORE GOVERNMENTAL ASSISTANCE OF VARIOUS KINDS REQUIRED.
ON SHORT-TERM SITUATION, CONSORTIUM MEMBERS INDICATED
(A) THEY ACTIVELY ENGAGED IN COLLECTING DATA ON OUT-
STANDING CREDITS, PRELIMINARY TO SIGNATURE OF BILATERAL
DEBT RESCHEDULING AGREEMENTS, WHILE (B) REOPENING OR
EXPANSION OF OFFICIAL EXPORT CREDITS AND GUARANTEES

WOULD DEPEND ON PROGRESSVVE EVALUATION OF IMPROVEMENT IN FINANCIAL CONDITION OF TURKEY. MOST SPEAKERS DID NOT OFFER ANY SUGGESTION FOR MEETING GOT/KUEHN REQUEST FOR HELP IN FINANCING DOWN PAYMENT PORTION OF PROJECT CREDITS. SEVERAL NOTED THEY WERE MAKING OR CONTEMPLATING NEW GOVERNMENT-TO-GOVERNMENT CREDITS (MAINLY PREVIOUSLY ANNOUNCED). GOT DELEGATION REPORTED NEGOTIATIONS WITH PRIVATE BANKS FOR DEBT RESCHEDULING PROCEEDING SATISFACTORILY, BUT STATED THAT URGENT IMPORT NEEDS NOT BEING MET DUE TO LACK OF SUFFICIENT CREDIT. CONTINUING OVERHANG OF UNGUARANTEED ARREARS IDENTIFIED BY GOT DEL AS ONE ELEMENT HAMPERING FULL RESTORATION OF CREDITWORTHINESS. KUEHN RECOMMENDED GOVERNMENTS GRANT CONSOLIDATION LOAN TO TURKISH CENTRAL BANK WHICH WOULD PERMIT IT TO PAY OFF ALL UNGUARANTEED ARREARS, BUT MOST SPEAKERS FELT THIS WAS PROBLEM GOT MUST SOLVE ITSELF, WITH MANY OFFERING STRONG HINTS THAT UNILATERAL ACTION BOTH NECESSARY AND APPROPRIATE. (GOT DEL DID NOT EXPLICITLY PICK UP ON LATTER IDEA.) TURKS ASKED GUARANTEE FOR REQUESTED \$500 MILLION STANDBY WITH BIS, BUT MOST DEL EXPLAINED THAT INDEPENDENCE OF CENTRAL BANKS MITIGATED AGAINST THEIR ABILITY TO DO THIS. DISCUSSION OF LONGER-TERM ROLE OF CONSORTIUM, INTRODUCED BY DEPUTY SECRETARY-GENERAL WOOTTON, FOCUSSED FIRST ON CONTINUING NEED FOR EXTERNAL FINANCING AND SECOND ON NECESSITY TO SHIFT EMPHASIS FROM TRADITIONAL CONCESSIONAL ASSISTANCE TO COMMERCIAL FINANCING, PRIVATE LIMITED OFFICIAL USE

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INVESTMENT AND RESOURCES FROM NEW (ESPECIALLY OPEC) DONORS. U.S. DEL URGED THAT CONSORTIUM BEGIN TO CONCENTRATE ON MEDIUM-TERM ISSUES RELEVANT TO SUSTAINABLE GROWTH IN TURKEY, RATHER THAN FINDING ITSELF INVOLVED IN A SERIES OF SHORT-TERM "BAIL-OUT" OPERATIONS. CONSORTIUM MEMBERS THAT SPOKE TO THIS ISSUE AGREED WITH WOOTTON ON DESIRABILITY OF ASSOCIATING PRIVATE SECTOR AND NEW DONORS WITH CONSORTIUM EFFORTS, BUT MOST FELT CONSORTIUM ITSELF SHOULD REMAIN GOVERNMENTAL BODY RESTRICTED TO OECD MEMBERS. ASSOCIATION OF PRIVATE SECTORS IN BOTH CREDITORS' COUNTRIES AND IN TURKEY VIA BIAC WILL BE EXPLORED. GIEL SAID THAT HE WILL COLLECT THINKING OF MEMBERS ON LONGER-TERM ROLE OF CONSORTIUM AND PREPARE PAPER FOR CIRCULATION IN LATE SUMMER. MEANWHILE, HE PROPOSED TO CONTRACT SIR KENNETH BERRILL (UK) AS CONSULTANT TO UNDERTAKE A STUDY OF TURKEY'S MEDIUM-TERM PROSPECTS. GIEL ALSO SUGGESTED AN EVENTUAL "PLEDGING SESSION" OF CONSORTIUM AT YEAR-END MAY BE APPROPRIATE. WOOTTON AND GIEL PLAN INFORMAL VISIT TO WASHINGTON ON AUGUST 28. END SUMMARY

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SHORT-TERM FINANCIAL SITUATION

2. CONSORTIUM CHAIRMAN (GIEL) OPENED MEETING WITH STATEMENT THAT TURKISH OFFICIALS, UP TO MINISTER OF FINANCE, HAD INSISTED ON A CONSORTIUM MEETING BEFORE THE SUMMER TO REVIEW THE SHORT-TERM FINANCIAL SITUATION. HE STATED THAT THE ACCOMPLISHMENTS TO DATE ON FINANCIAL ISSUES, INCLUDING IMF STANDBY, PUBLIC RESCHEDULING AND PROGRESS ON NEGOTIATIONS TO RESCHEDULE PRIVATE BANK CREDITS, WAS NOT SUFFICIENT TO SOLVE TURKEY'S PROBLEMS. A NEARLY TOTAL CESSATION OF CAPITAL INFLOWS AND SUPPLIERS' CREDITS HAD CREATED A SHORTAGE OF RAW MATERIALS SUCH THAT INDUSTRY IN TURKEY WAS RUNNING AT 50 PERCENT CAPACITY UTILIZATION. HE NOTED THAT TURKISH AUTHORITIES UNDERSTOOD THAT GOVERNMENTS WOULD BE UNABLE, ON SUCH SHORT NOTICE, TO MAKE NEW COMMITMENTS, BUT THAT HE BELIEVED IT WOULD BE USEFUL FOR CONSORTIUM MEMBERS

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TO REVIEW 1978 FINANCIAL SITUATION AND BEGIN THINKING ABOUT THE PROBLEMS IN A "POSITIVE" AND "IMAGINATIVE" WAY.

3. CONSORTIUM SECRETARIAT (KUEHN) STATED THAT OBJECTIVES OF BOTH THE CONSORTIUM AND THE TURKISH GOVERNMENT WERE FIRST TO RESTORE TURKEY'S CREDIT STANDING AND SECONDLY, TO OBTAIN FRESH CREDITS TO FILL THE 1978 FINANCING GAP. ACCORDING TO KUEHN, THE LARGE PRIVATE PORTION OF TURKEY'S OVERALL FINANCIAL PROBLEM IS VERY RELEVANT TO CONSIDERING THE KINDS OF CONTRIBUTION THAT THE CONSORTIUM SHOULD MAKE TO SUPPORT TURKEY. HE SINGLED OUT THREE AREAS FOR PARTICULAR ATTENTION:

(1) TURKEY MUST BE ABLE TO SERVICE ACCEPTANCE CREDITS FROM BANKS IN ORDER TO MAINTAIN THOSE CREDITS AT THEIR CURRENT LEVEL AND THEREBY ASSURE CONTINUED IMPORTS ASSOCIATED WITH KEEPING UP THIS "FLOAT" THROUGH ROLL-OVERS.

(2) PROBLEM OF NON-GUARANTEED TRADE ARREARS MUST BE RESOLVED AS A PRECONDITION TO RESTORING TURKISH CREDITWORTHINESS. KUEHN STATED THAT ALTHOUGH SOME OF THESE ARREARS MAY HAVE BEEN PAID WITH ILLEGAL FUNDS, THE IMPORTERS NEVERTHELESS HAVE A LEGITIMATE CLAIM TO RECOVER WHATEVER FUNDS WERE USED. HE SUGGESTED THAT THE BEST AND MOST EFFICIENT WAY TO SETTLE THESE TRADE ARREARS IS TO GIVE THE TURKISH CENTRAL BANK A CONSOLIDATION LOAN WHICH WOULD THEN ALLOW IT TO REPAY ALL OF THE NUMEROUS SMALL CREDITORS.

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(3) LACK OF FUNDS TO PAY THE 15 PERCENT RECIPIENT COUNTRY COMPONENT (DOWN PAYMENT) OF VARIOUS PROJECT CREDITS HAS PREVENTED THE UTILIZATION OF SOME AVAILABLE CREDITS AND IN SOME CASES, THE COMPLETION OF IMPORTANT INDUSTRIAL PROJECTS.

4. THE TURKISH DELEGATION (GUCSAVAS) EXPRESSED THE HOPE THAT THIS CONSORTIUM MEETING WOULD PAVE THE WAY FOR A PROMPT, SATISFACTORY SOLUTION TO THE REMAINING OUTSTANDING SHORT-TERM ISSUES. HE ARGUED THAT SUFFICIENT FINANCING TO RESTORE ADEQUATE IMPORT FLOWS WAS A NECESSARY CONDITION FOR THE SUCCESS OF TURKEY'S STABILIZATION PROGRAM. IF IMPORTS OF RAW MATERIALS ARE

NOT AVAILABLE AND INDUSTRY IS REQUIRED FURTHER TO
REDUCE OUTPUT AND THEREBY EXACERBATE PROBLEM OF HIGH
UNEMPLOYMENT, THE GOVERNMENT WOULD NOT BE ABLE TO HOLD
THE LINE OR MEET ITS OBLIGATIONS UNDER THE IMF STANDBY.
REGARDING NEGOTIATIONS WITH THE COMMERCIAL BANKS,
GUCSAVAS DESCRIBED THEM AS SLOW, BUT SATISFACTORY, AND
NOTED THAT THE LATEST PROPOSAL INVOLVED CONSOLIDATION
OF 2.5 BILLION DOLLARS IN SHORT-TERM DEBTS WITH REPAY-
MENT OVER SEVEN YEARS (THREE GRACE, FOUR REPAYMENT) AT
AN INTEREST RATE OF 1-3/4 POINTS ABOVE 4BOR. THIS LOAN
WOULD CONSOLIDATE ARREARS PLUS PAYMENTS FALLING DUE IN
1978, 1979 AND 1980. HE MADE NO SPECIFIC REFERENCE

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TO "NEW MONEY" FROM PRIVATE BANKS.

5. GUCSAVAS OUTLINED FIVE QUESTIONS WHICH HE REQUESTED
CONSORTIUM MEMBERS TO ADDRESS:

(A) THE TURKISH CENTRAL BANK HAS APPROACHED THE BANK
FOR INTERNATIONAL SETTLEMENTS (BIS) TO ESTABLISH A \$500
MILLION STANDBY FACILITY, BUT NEEDS THE SUPPORT OF MEM-
BER GOVERNMENTS. COULD SUCH SUPPORT BE GIVEN?

(B) AFTER THE SIGNING, LAST MONTH, OF THE OVERALL DEBT RESCHEDULING AGREEMENT WITH CONSORTIUM MEMBERS, MANY OF THEIR EXPORT CREDITS AGENCIES HAVE STOPPED ISSUING NEW CREDITS OR GUARANTEES TO TURKEY. COULD THESE LINES BE REACTIVATED AND ENLARGED IMMEDIATELY?

(C) ON A RELATED ISSUE, WHAT IS THE STATUS OF PREPARATION FOR THE SIGNING OF THE BILATERAL DEBT RESCHEDULING LIMITED OFFICIAL USE

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AGREEMENTS?

(D) WOULD GOVERNMENTS GIVE ACTIVE ENCOURAGEMENT TO THEIR PRIVATE BANKS TO FACILITATE THE RESCHEDULING OF OUTSTANDING PRIVATE DEBT?

(E) ALTHOUGH NON-GUARANTEED TRADE ARREARS ARE NOT GOVERNMENT-TO-GOVERNMENT OBLIGATIONS, THEY CREATE SERIOUS PROBLEMS FOR TURKEY WHICH "COULD LEAD TO NEW TRADE PATTERNS FOR TURKEY IN THE FUTURE" AND ARE ANOTHER OBSTACLE TO RESTORATION OF CREDITWORTHINESS AND ADEQUATE IMPORT FLOWS. THUS, THE SOLUTION TO NON-GUARANTEED ARREARS IS AN ISSUE OF IMPORTANCE TO GOVERNMENTS. WHAT ARE COUNTRIES PREPARED TO DO?

6. IMF REPRESENTATIVE (WOODWARD) GENERALLY AGREED WITH THE "SOMBER" REPORT OF THE SECRETARIAT. HE REPORTED THAT THE IMF ESTIMATE OF REQUIRED IMPORTS FOR 1978 IS IN THE RANGE OF 4 - 4.5 BILLION DOLLARS (VS. 5 BILLION IN SECRETARIAT DOCUMENTATION) WHICH WOULD MEAN A 30 PERCENT VOLUME REDUCTION IN RECORDED IMPORTS FROM 1977. HE STRESSED THE MAGNITUDE OF THIS REDUCTION BY NOTING THAT RECORDED IMPORTS (THUS THOSE AFFECTED BY THE REDUCTION) ARE MAINLY OIL AND RAW MATERIALS SINCE A LARGE PROPORTION OF CONSUMER GOODS IMPORTS ARE SMUGGLED AND THUS UNRECORDED. THE IMF FEELS THAT THE SOLUTION TO TURKEY'S REMAINING PROBLEMS IS LARGELY IN TURKISH HANDS, PARTICULARLY WITH RESPECT TO UNGUARANTEED ARREARS. HOWEVER, THE CONSORTIUM COULD CONTRIBUTE SIGNIFICANTLY TO STRENGTHENING LONGER-TERM PROSPECTS BY ENCOURAGING MEMBER COUNTRIES TO FACILITATE THE ENTRY OF TURKISH EXPORTS INTO THEIR MARKETS AND BY ESTABLISHING A PLAN FOR TRULY LONG-TERM FINANCIAL AID TO MEET TURKEY'S LIMITED OFFICIAL USE

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CHRONIC FINANCING NEEDS. THE WORLD BANK REPRESENTATIVE (BAIG) BASICALLY AGREED WITH KUEHN THAT THE UNGUARANTEED ARREARS ARE OBSTACLE TO RESUMPTION OF CAPITAL FLOWS TO TURKEY.

7. A "TOUR DE TABLE" IN WHICH MOST COUNTRIES PARTICIPATED ELICITED THE FOLLOWING RESPONSES TO THE FIVE QUESTIONS POSED BY THE TURKISH DELEGATION (KEYED TO POINTS IN PARAGRAPH 5):

(A) MOST SPEAKERS CITED THE INDEPENDENCE OF THEIR CENTRAL BANKS AND THUS THEIR INABILITY TO BE VERY FORTHCOMING ON THE QUESTION OF A GUARANTEE FOR THE BIS STANDBY.

(B) WHILE MOST SPEAKERS DENIED THAT OFFICIAL EXPORT FINANCING FACILITIES HAD BEEN TOTALLY STOPPED, MOST ACKNOWLEDGED THAT EXPORT CREDIT AGENCIES WERE BEING MORE CAREFUL IN LINE WITH THE DETERIORATED CREDIT-WORTHINESS OF TURKEY. THE U.S. DELEGATE STRESSED THAT THE EXPORT-IMPORT BANK AS AN AUTONOMOUS AGENCY WAS REQUIRED TO FIND REASONABLE ASSURANCE OF REPAYMENT BEFORE APPROVING EXPORT CREDITS OR GUARANTEES. HE ADDED THAT EXIM IS CLOSELY FOLLOWING TURKEY'S NEGOTIATIONS WITH THE COMMERCIAL BANKS AND ITS COMPLIANCE WITH THE IMF STANDBY. AS THE TURKISH SITUATION IMPROVES, A LIKELY PATTERN FOR EXIM ACTIVITY IN TURKEY WOULD BE PROGRESSIVELY (A) RESUMPTION OF CREDITS AND GUARANTEES ON A MODERATE SCALE, (2) EXTENDING

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MEDIUM-TERM FACILITIES FOR INDIVIDUAL CAPITAL GOODS EXPORTS AND (3) APPROVING FINANCING FOR PROJECTS PARTICULARLY THOSE DEVELOPING INDIGENOUS ENERGY AND RAW MATERIAL RESOURCES. THE UK DELEGATE NOTED THAT THE EXPORT CREDIT GUARANTEE DEPARTMENT WILL LOOK VERY CAREFULLY AT MEDIUM-TERM PROSPECTS BEFORE IT RESTORES FULL-SCALE ACTIVITIES IN TURKEY. SEVERAL DELEGATES, AUSTRIA, BELGIUM, NORWAY, FRANCE, GERMANY, CITED PREVIOUSLY-ANNOUNCED PROGRAMS OR INTENTIONS TO GRANT NEW GOVERNMENT-TO-GOVERNMENT CREDITS TO TURKEY (OUTSIDE THE EXPORT CREDIT AND GUARANTEE SCHEMES). U.S. MADE REFERENCE TO SUPPORTING ASSISTANCE PROPOSAL BEFORE CONGRESS, BUT NOTED SOME PROBLEMS WITH OVERALL FOREIGN ASSISTANCE BILL WHICH COULD DELAY EFFECTIVE DATE. EUROPEAN INVESTMENT BANK RAP CITED 365 MILLION E.U.A. AVAILABLE TO TURKEY, LARGE PART AT FAVORABLE INTEREST RATES WHEN PENDING FINANCIAL PROTOCOL IS SIGNED. GUCSAVAS ACKNOWLEDGED PAST PROBLEMS WITH EIB PROTOCOL, BUT INFORMED CONSORTIUM THAT IT HAD LIMITED OFFICIAL USE

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NOW BEEN SENT TO PARLIAMENT FOR RATIFICATION. GERMAN DEL (VON STEIN) MADE RELATIVELY LONG INTERVENTION, BUT ESSENTIALLY DID NOT OFFER ASSISTANCE TO TURKEY IN 1978 BEYOND PROGRAMS ALREADY SET IN TRAIN. ON BIS CREDIT, SAID FRG COULD PUT IN A "GOOD WORD" TO BUNDESBANK, BUT LATTER WAS INDEPENDENT AND IN ANY CASE GUARANTEES WOULD HAVE TO BE OBTAINED ON A COMBINED BASIS. AUSTRIAN DEL SAID GOA CONTEMPLATING NEW OFFICIAL EXPORT CREDITS OF \$70-80 MILLION AND WOULD CONSIDER POSSIBILITY OF SPECIAL CREDIT TO FINANCE DOWN PAYMENT BY TURKEY ON PROJECT CONTRACTS ALREADY CONCLUDED. BELGIAN DEL STATED HIS COUNTRY WOULD BE WILLING TO JOIN IN GUARANTEEING \$500 MILLION BIS CREDIT IF OTHER CONSORTIUM MEMBERS AGREE TO PARTICIPATE. NORWEGIAN DEL DECLARED WILLINGNESS TO DISCUSS QUESTION OF FINANCING NON-GUARANTEED ARREARS, BUT NOTED SUCH FINANCING WOULD BE SUBJECT TO SEPARATE PARLIAMENTARY APPROVAL. FRENCH STATED THEY HAD NO MEANS OF ACTION EITHER THE BIS GUARANTEE OR UNGUARANTEED ARREARS.

(C) MOST DELEGATES (ESPECIALLY FRG, UK, FRANCE, SWITZERLAND) STRESSED THE COMPLICATED DATA GATHERING PROBLEMS INVOLVED IN COMPILING THE BILATERAL RESCHEDULING AGREEMENTS, BUT REPORTED THAT THIS PROJECT WAS WELL

UNDERWAY IN EACH COUNTRY AND SHOULD PERMIT SIGNATURE OF BILATERAL BY THE END OF SUMMER. DELEGATES ACKNOWLEDGED THE IMPORTANCE OF QUICK COMPLETION OF THE BILATERAL NEGOTIATIONS. THE NORWEGIAN DELEGATE REPORTED THAT THEIR BILATERAL AGREEMENT HAD BEEN SIGNED. THE U.S. REPORTED THAT SIGNATURE WAS EXPECTED VERY SOON; THAT SUBMISSION OF THE TEXT TO TURKISH AUTHORITIES WAS BEING DELAYED ONLY BY A MINOR TECHNICAL PROBLEM.

(D) DELEGATES EMPHASIZED THE NEED FOR GOVERNMENTS TO LIMITED OFFICIAL USE

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BE CIRCUMSPECT IN THEIR DEALINGS WITH PRIVATE BANKS AND TO AVOID THE IMPRESSION THAT THEY WERE PRESSURING THESE BANKS TO OVERRULE STANDARD COMMERCIAL CRITERIA. THE NETHERLANDS DELEGATE SUGGESTED, HOWEVER, THAT THE CONSORTIUM, THROUGH ITS CHAIRMAN, COULD MAKE KNOWN TO BANKS THE FAVORABLE ATTITUDE IN THE CONSORTIUM TOWARD THE CURRENT TURKISH STABILIZATION PROGRAM.

(E) MOST DELEGATES FELT THAT THE PROBLEM OF UNGUARANTEED ARREARS WOULD HAVE TO BE SOLVED BY THE TURKISH AUTHORITIES THEMSELVES. THE BELGIAN DELEGATE DREW ATTENTION TO THE MFN CLAUSE (PARAGRAPH 8) OF THE AGREED MINUTE REQUIRING THAT TURKEY TREAT ALL CREDITORS COMPARABLY. SEVERAL DELEGATES (NOTABLY SWISS, FRENCH, IMF) OFFERED THINLY-VEILED SUGGESTION THAT UNILATERAL ACTION BY TURKEY WOULD BE NECESSARY AND APPROPRIATE, BUT NEITHER TURKISH DEL NOR GIEL PICKED UP ON THIS IDEA.

MEDIUM-TERM ROLE OF THE CONSORTIUM

8. CHAIRMAN OPENED DISCUSSION OF THIS ITEM BY ACKNOWLEDGING THE INTEREST ALREADY MANIFESTED BY SEVERAL DELEGATIONS, INCLUDING SPECIFICALLY THE U.S., IN EXTENDING THE FOCUS OF THE CONSORTIUM BEYOND THE IMMEDIATE FIRE-FIGHTING OPERATIONS TO LOOK AT THE MEDIUM AND LONG-TERM ISSUES WHICH WILL DETERMINE WHETHER SUSTAINABLE

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GROWTH CAN BE ATTAINED IN TURKEY. GIEL NOTED THAT THE CONSORTIUM HAD TRADITIONALLY CONCERNED ITSELF WITH LONGER-TERM DEVELOPMENT QUESTIONS, BUT IN 1978, AFTER FOUR YEARS ABSENCE OF CONTACT BETWEEN THE CONSORTIUM AND THE FORMER GOT, HAD BEEN FACED WITH A CRITICAL SHORT-TERM PROBLEM WHICH UP TO THIS MEETING HAD CONSUMED ALL AVAILABLE ENERGIES.

9. DEPUTY SECRETARY-GENERAL WOOTTON, ON BEHALF OECD, CITED TURKEY'S STRUCTURAL BOP DEFICIT AND CONCLUDED THAT BOP FINANCING WOULD BE GOT'S PRIMARY POLICY CONSTRAINT IN THE MEDIUM-TERM, PARTICULARLY IN THE EARLY 1980'S WHEN DEBT SERVICE ALONE WILL REQUIRE OVER \$2 BILLION AND THREATENS TO PROMPT FUTURE SERIES OF RESCHEDULINGS. TURKEY WILL BE REQUIRED TO REDUCE ITS CURRENT ACCOUNT DEFICIT SUBSTANTIALLY BY 1981 WHILE ABSORBING LABOR SUPPLY (AND POPULATION) GROWTH AT THE FASTEST RATE IN OECD. BREATHING SPACE IN THE SHORT-
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TERM IS NECESSARY TO AVOID MAJOR SOCIAL PROBLEMS WHICH WOULD BE ASSOCIATED WITH FURTHER SCALING-DOWN OF MEDIUM-TERM GOALS. WOOTTON SPECIFICALLY NOTED THREE AREAS IN WHICH THE CONSORTIUM COULD PLAY A ROLE:

(A) A RE-EVALUATION OF GOT'S IMPORT-SUBSTITUTION DEVELOPMENT POLICY HAS RESULTED IN CURRENT GOVERNMENT'S PLACING HIGH IMPORTANCE ON EXPORT-ORIENTED GROWTH. CON-

SORTIUM MAY BE ABLE TO MAKE ADDITIONAL CONCESSIONAL CREDITS AVAILABLE FOR INFRASTRUCTURE REQUIRED, SUCH AS FOR TOURISM. OECD SECRETARIAT, HOWEVER, FEELS THAT TO LARGE EXTENT BOTH CAPITAL AND KNOW-HOW NECESSARY FOR EXPORTS AND TOURISM ARE PRESENT IN TURKEY, BUT NEED APPROPRIATE POLICY FOCUS TO BRING FORTH.

(B) RESOURCES NECESSARY FOR GROWTH MUST BE OBTAINED ON CREDIT, BASICALLY COMMERCIAL, WHICH REQUIRES RE-ESTABLISHMENT OF CREDITWORTHINESS.

(C) MARKETS MUST BE OPEN TO TURKISH EXPORTS, AS NOTED EARLIER BY WOODWARD (IMF).

10. TO ADDRESS TURKEY'S FUTURE NEED, THE CONSORTIUM, ACCORDING TO WOOTTON, MUST FIND A WAY TO INTEGRATE THE PRIVATE SECTOR AND NEW DONORS INTO THE OVERALL FINANCIAL ARRANGEMENTS FOR TURKEY, EVEN IF NOT INTO THE CONSORTIUM ITSELF. QUESTION REMAINS OPEN HOW BEST ACHIEVE SUCH INTEGRATION. CLEARLY WOULD BE HELPFUL IF OECD COUNTRIES THAT NOT MEMBERS OF CONSORTIUM, I.E., JAPAN AND FINLAND, WOULD JOIN. HOWEVER, EXPANDED CONSORTIUM, INCLUDING PRIVATE BANKS AND OPEC DONORS, NOT PREFERRED BY GOT. TURKISH MINFIN HAD SUGGESTED POSSIBLE ARRANGEMENT WITH BIAC TO COMPLEMENT CONSORTIUM ON PRILIMITED OFFICIAL USE

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VATE SIDE, PROVIDING ESPECIALLY A CHANNEL FOR INFORMATION BETWEEN PUBLIC AND PRIVATE SECTORS OF BOTH CAPITAL EXPORTING COUNTRIES AND OF TURKEY. AD HOC MEETINGS WITH PRIVATE SECTOR AND OPEC DONORS ORGANIZED BY CONSORTIUM ALSO A POSSIBILITY.

11. U.S. DEL (ELY) QUESTIONED WHETHER IT IS USEFUL FOR CONSORTIUM TO CONTINUE FOCUSING ON SHORT-TERM ISSUES,

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ESPECIALLY WHEN SOME MAJOR PARTICIPANTS SUCH AS U.S.
HAD LITTLE TO OFFER IN SHORT-TERM RELIEF. HE ADDED
THAT A SERIES OF "BAIL-OUT" OPERATIONS ALSO NOT VERY
USEFUL. TURKEY'S CAPITAL NEEDS WILL REQUIRE MIX OF
PUBLIC, PARTICULARLY IFI, AND PRIVATE, BOTH PORTFOLIO
AND DIRECT. IN THIS REGARD, USG WELCOMES GOT'S NEW
POSITIVE ATTITUDE TOWARD PRIVATE DIRECT INVESTMENT.
THE CONSORTIUM SHOULD KEEP TRACK OF TURKEY'S OVERALL
DEVELOPMENT STRATEGY, BOTH IN MACRO AND SECTORAL
TERMS, TO ADVISE GOT ON HOW BEST TO OBTAIN NECESSARY
FINANCING. AN APPROPRIATE DEVELOPMENT STRATEGY, GIVEN
TURKEY'S GREAT HUMAN POTENTIAL, WOULD MAKE FOR A BRIGHT
FUTURE, IN OPINION USG. OTHER DELS GENERALLY LIMITED
THEIR REMARKS TO QUESTION OF EXPANDED CONSORTIUM --
WITH ALL SPEAKERS ACKNOWLEDGING THE NEED TO GET THE
"RIGHT PEOPLE" INVOLVED, BUT MOST PREFERRING TO
RESTRICT CONSORTIUM PROPER TO OECD MEMBER COUNTRIES.
TURKISH DEL EXPRESSED NEED THAT CONSORTIUM BE FLEXIBLE
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AND IMAGINATIVE, HOPING THAT THEREBY IT COULD SERVE TO
MAXIMUZE FINANCING FOR TURKEY, NOT EXCLUDING ANY FORM
OF ASSISTANCE, PARTICULARLY CONCESSIONAL AID.

12. CHAIRMAN PROPOSED THAT HE AND KUEHN WOULD UNDER-
TAKE SERIES OF BILATERAL CONTACTS TO COLLECT THE THINK-
ING OF DELEGATIONS ON LONG-TERM ROLE OF CONSORTIUM, AND
WOULD CIRCULATE A PLANNING PAPER IN LATE SUMMER. MEAN-
WHILE, HE PROPOSED TO CONTRACT SIR KENNETH BERRILL, A
FORMER CONSULTANT TO THE CONSORTIUM, TO ANALYZE TURKEY'S
MEDIUM-TERM PLAN AND PROSPECTS. HE ALSO SUGGESTED A
SCENARIO FOR THE REMAINDER OF 1978 CONSISTING OF (1) A

FURTHER REVIEW OF THE SHORT-TERM SITUATION BY THE CONSORTIUM FOLLOWED IMMEDIATELY BY (2) AN EXPANDED MEETING TO INCLUDE PRIVATE SECTOR AND NON-CONSORTIUM DONORS WITH INPUT OF MEDIUM-TERM ANALYSIS, AND (3) AN EVENTUAL "PLEDGING SESSION" IN DECEMBER. AFTER MEETING, WOOTTON INFORMED U.S. DEL THAT HE, GIEL AND KUEHN WOULD BE IN WASHINGTON AUGUST 28 AND WOULD LIKE TO SET UP APPOINTMENT WITH APPROPRIATE USG OFFICIALS FOR THAT DATE.
SALZMAN

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